

## Data Center Consolidation

Tab	Source: Data Request and/or On-Site Visit
57 6/2/93 ASI Questionnaire (Att 3) M. Hauf Follow-up to item 26 re: Productivity improvement factor.	9/10/93 Page 7
58 6/2/93 ASI Questionnaire (Att 3) M. Hauf Follow-up to item 27 re: 1992 underbudget situation.	9/10/93 Page 7
59 6/2/93 ASI Questionnaire (Att 3) M. Hauf Follow-up to item 31 re: Increase in budget for 1993.	9/10/93 Page 7
60 6/2/93 ASI Questionnaire (Att 3) G. Smith Follow-up to items 2, 8, 9, 10, 11, 13 re: Acronyms, RC, Definitions, time charging.	9/10/93 Pages 7 and 8
61 6/2/93 ASI Questionnaire (Att 3) B. Elman Follow-up to item 8 re: Description of NSDB.	9/10/93 Page 8
62 6/2/93 AOC Questionnaire (Att 4) J. Zitnik Follow-up to item 10 re: Service failures/outages.	9/10/93 Page 8
63 6/2/93 AOC Questionnaire (Att 4) C. Kane Follow-up to item 6 re: Acronym, MIPS supporting calculations.	9/10/93 Page 8
64 Follow-up questions (6/2/93 #2 Att 5) - AA Management Letter - Memo on Internal Control Structure (1/31/92) - More details, cost allocation, correction of deficiencies	9/10/93 Pages 8 and 9
65 Follow-up questions (6/2/93 #2 Att 5) - AA Management Letter - '92 I/T Reviews Memo on Internal Control Structure (2/5/93) - Stand- ardized Applications, Descriptions, Disaster Recovery.	9/10/93 Page 9 #b
66 Follow-up questions (6/2/93 #2 Att 5) - AA Management Letter - Memo on Internal Control Structure (2/5/93) - AA recommended controls	9/10/93 Page 9 #c
67 RDC Study (1/27/93 DR #3) - Request for support- ing calculations for Study statement of reduced unit costs by ASI.	9/10/93 Page 11 #a
68 RDC Study - Acronyms, graphs - more details	9/10/93 Page #b

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Tab	Source: Data Request and/or On-Site Visit
69 RDC Study - More information re other Companies in study.	9/10/93 Page 10 #c
70 RDC Study - Question re Rate of Return component in each company's billed cost.	9/10/93 Page 10 #d
71 RDC Study - Calculations of ASI's cost of labor/technology	9/10/93 Page 11 #e
72 RDC Study - Clarification of RDC conclusions re ASI's costs to clients.	9/10/93 Page 11 #f
73 RDC Study - Request for comparison of ASI's I/T costs vs. other RBOCs by RDC.	9/10/93 Page 11 #g
74 RDC Study - RDC graphs - Request for further clarification.	9/10/93 Page 11 #h
75 RDC Study - Questions re comparisons of ASI's data center size.	9/10/93 Page 11 #i
76 Follow-up to 11/3/92 DR - re Internal Audits - Acronyms#a	9/10/93 Page 11
77 Follow-up to 11/3/92 DR - re Internal Audits - Data Center/data processing improvements as result of audits.	9/10/93 Page 11 #b
78 090006 Ortiz Handout - Response to question re correctness of work activity in support of 090006.	9/10/93 Page 12 #a Top
79 Explanation of \$5.5 million in adjustments to 090006 for June 1992.	9/10/93 Page 12 #a
80 Supporting calculations for the dollars per used MIPS for 1990 - 1992.	9/10/93 Page 12 #a Bottom
81 Additional Interviewees for Work Profile 090006 (3 completed Questionnaires)	9/10/93 Page 14
82 Exact amount of DPCS charges in CATS-1290 \$115,645,948 Adjustment field. (1992)	10/29/93 Page 1 #1
3 Schedule/Attachments - 1992 DPCS cost/resource details.	10/29/93 Page 1 #2

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Tab	Source: Data Request and/or On-Site Visit
84 Further clarification of "Cost and Resource", cost accumulation/flow, tracking of units.	10/29/93 Page 1 #3, #4
85 Explanation of allocation of 090006 costs to AOCs.	10/29/93 Page 2 #5
86 Response to request for WBI's experience re reduction of unit cost of providing mainframe data processing resources.	10/29/93 Pages 2 #c Bottom
87 Response to follow-up question re computer utilization percentages supporting calculations.	10/29/93 Page 3 #a
88 Response to follow-up question pertaining to merger of other work profiles into 090006.	10/29/93 Page 2 #a Top
89 Nolan and Norton, Ernst & Whinney/Ernst & Young, Peat Marwick studies of Ameritech's resources (1988 - 1992)	10/29/93 Page 2 #a
90 Follow-up to question re disaster recovery capability.	10/29/93 Page 3 #g
91 Follow-up to questions re supporting calculations in Executive Summary of Bell Group Data Center Consolidation Project data.	10/29/93 Page 4 #h
92 Response to request for supporting calculations for expense dollar amounts (1990 - 1992) from Economic Evaluation.	10/29/93 Page 4
93 Follow-up to M. Hauf Questionnaire re RDC supporting calculations.	10/29/93 Pages 4 and 5 #19
94 Follow-up to M. Hauf Questionnaire re cost based unit pricing to AMCI.	10/29 93 Page 5 #20
95 Follow-up to M. Hauf questionnaire re hours/dollars charged to projects.	10/29/93 Page 5 #24
96 Follow-up to M. Hauf questionnaire re 1992 work profile billing/budgeting processes.	10/29/93 Page 6 #27
97 Follow-up to M. Hauf questionnaire re Data Center Consolidation project charges.	10/29/93 Page 6 #31

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Tab		<u>Source:</u> Data Request and/or On-Site Visit
98	Follow-up to G. Smith questionnaire re clarification of "across Ameritech".	10/29/93 Page 6 Bottom
99	Follow-up to AA Management Letter - Remedy of deficiencies noted in 2/5/93 memo.	10/29/93 Page 7 #a
100	Follow-up to C. Kane questionnaire re cost to process MIP supporting calculations.	10/29/93 Page 7 #6
101	Follow-up to AA Management Letter - (1) Non-reg/affiliate applications, (2) actions re disaster recovery.	10/29/93 Page 8 #b
102	RDC Study - Request for RDC supporting information re ASI reduced unit costs.	10/29/93 Page 8 #a
103	RDC Study - Request for RDC supporting information re graphs.	10/29/93 Page 8 #b
104	RDC Study - Clarification of components in "actual cost of labor and technology"	10/29/93 Page 9 #e
105	RDC Study - Request for comparisons with Peat Marwick study.	10/29/93 Page 9 #f
106	RDC Study - Request for proprietary information.	10/29/93 Page 9 #g
107	RDC Study - Question pertaining to "declining marginal cost curves"	10/29/93 Page 9 #i
108	Follow-up to Ortiz Handout - Question re classification of Ortiz activities.	10/29/93 Page 9 #a Bottom
109	Response to questions re DPCS costs/operations.	10/29/93 Page 10 #a
110	Accounts/FCs/PLCs for specific work profile Bill Lines.	11/18/93 Page 5 #1 Bottom
111	Response to request for additional information re merging of work profiles into 090006.	11/18/93 Page 5 #2
112	Additional questions re specific work profile Bill Lines, e.g. costs, activities.	11/18/93 Page 5 #3
113	Request for cost pools information for 090006.	11/18/93 Page 5

## Data Center Consolidation

Tab		<u>Source:</u> Data Request and/or On-Site Visit
114	Follow-up to M. Hauf questionnaire - request for information re outsourcing/bids/analysis	11/18/93 Page 7 #6
115	Follow-up to M. Hauf questionnaire - additional information re total expenses for Data Center project and work profile.	11/18/93 Page 7 #7
116	Response to question for reconciliation of 1992 budget numbers for 090006.	11/24/93 Page 1 #1
117	Follow-up to M. Hauf questionnaire - information re services provided to AOCs by ASI.	11/24/93 Page 1
118	Response to questions re "loading factors" and unit rates.	11/24/93 Page 2 #4
119	Clarification of specific disaster recovery action.	11/24/93 Page 2 #6

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**Pertaining to  
1992 ASI Work Profile # 100018**

**Network/Operations Architecture Planning**

Tab		<u>Source:</u> Data Request and/or On-Site Visit
1	ASI Work Profile - 1992 # 100018	6/24/92
2	Response to request for description of Work Profile Bill Lines for Accounting Standards classification purposes	6/2/93 Att 2 #9
3	Five Benefit Verification Forms - 1992 - Completed	6/2/93 Att 2 #11
4	Three ASI Questionnaires - each 32 questions completed by ASI employees who charged time to this work profile in 1992. (Extensive work samples in files)	6/2/93 Att 3 -
5	Six AOC Questionnaires (16 Questions) completed by AOC employees	6/2/93 Att 4
6	Total 1992 Work Profile Budget	6/2/93 Att 2 #1
7	Total Non Direct Billed Work Profiles Cost included in Work Profile - 1992	6/2/93 Att 2 #2
8	Total Bellcore Cost in Work Profile	6/2/93 Att 2 #3
9	Total number of employees that had time hard coded to the Work Profile	6/2/93 Att 2 #4
10	Accounting Classifications and PLC Assignments	6/2/93 Att 2 #7
11	Sample Bill Line/Project Code Titles	6/2/93 Att 2 #8
12	Total Hours/Month (for allocating Overheads)	6/2/93 Att 2 #10
13	CATS 9240 - Year-To-Date Billing Summary	
14	Breakdown of Bellcore vs. ASI costs in Work Profile	1/26/93 DR #1 Q 6
15	AOC questionnaires (6/2/93 Att 4) completed by 2 additional employees	9/10/93 Page 14

# **Network/Operations Architecture Planning**

Tab		<u>Source:</u> Data Request and/or On-Site Visit
16	Response to question pertaining to value of SMDS trial (costs in 100018) in relation to establishment of AADS	11/10/93 Page 1
17	Response to question pertaining to 1993 re-organization of 100018 work functions.	11/10/93 Page 3 #12
18	Response to question pertaining to Part 32 account classification of Work Profile costs	11/10/93 Page 3 #13
19	Response to question concerning Bob Humes' position/responsibilities as preparer of Benefit Verification form for 100018 for all the AOCs.	11/10/93 Page 3 #15
20	Budget Variance reports (BVA-1) for Work Profile (monthly/AOC) plus 12/92 YTD (BVA-2)	6/2/93 Att 2 #12

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**Pertaining to  
1992 ASI Work Profile # 100021**

**Intelligent Network (IN) Trials - IN/O, PCS**

<b>Tab</b>		<u><b>Source:</b></u> <b>Data Request and/or On-Site Visit</b>
1	ASI Work Profile - 1992 # 100021	6/24/92
2	Response to request for description of Work Profile Bill Lines for Accounting Standards classification purposes.	6/2/93 Att 2 #9
3	Five Benefit Verification Forms - 1992 - Completed	6/2/93 Att 2 #11
4	Two ASI Questionnaires - each 32 questions completed by ASI employees (Profile Manager included) who charged time to this work profile in 1992. (Includes work samples).	6/2/93 Att 3 -
5	Five AOC Questionnaires (16 Questions) completed by AOC employees.	6/2/93 Att 4
6	Total 1992 Work Profile Budget	6/2/93 Att 2 #1
7	Total Non Direct Billed Work Profiles Cost included in Work Profile - 1992	6/2/93 Att 2 #2
8	Total Bellcore Cost in Work Profile	6/2/93 Att 2 #3
9	Total number of employees that had time hard coded to the Work Profile	6/2/93 Att 2 #4
10	Total number of employees that positive time report to the Work Profile.	6/2/93 Att 2 #5
11	Total number of employees that exception time time reported to Work Profile in June, 1992.	6/2/93 Att 2 #6
12	Accounting Classifications and PLC Assignments	6/2/93 Att 2 #7
13	Sample Bill Line/Project Code Titles	6/2/93 Att 2 #8
14	Total Hours/Month (for allocating Overheads)	6/2/93 Att 2 #10
15	CATS 9240 - Year-To-Date Billing Summary	



# Intelligent Network (IN) Trials - IN/O, PCS

Tab	Source: Data Request and/or On-Site Visit
16 Total 1992 Billings for Work Profiles categorized as "Project".	6/2/93 Att 2 #15
17 List of Work profiles that are ABG Strategies and level of funding - 1992.	6/2/93 Att 5 #3
18 Strategic Business Plan (Economic Evaluation)	6/2/93 Att 2 #13
19 Response to request for "revenue opportunity analysis" for each Business Process "10" project.	1/27/93 DR #3
20 Request for an additional AOC questionnaire (6/2/93 Att 4) completed by an AOC employee.	9/10/93 Page 14
21 Response to request for explanation of budget increase in Work Profile from 1992 to 1993.	11/10/93 Page 3 #16
22 Response to request for clarification of bill line AU8LS0 (PCN Trial) classification.	11/10/93 Page 3 #17
23 Response to request for additional information re Work Profile costs classification.	11/10/93 Page 3 #18-a,b,c
24 Response to request for information re Benefit Verification form preparer.	11/10/93 Page 3 #19
25 Response to request for accuracy review of Audit team statement pertaining to ASI reasons for Part 64 classification of Work Profile projects.	11/18/93 Page 5 #7aA
26 Budget Variance reports (EVA-1) for Work Profile (monthly/AOC) plus 12/92 YTD (EVA-2)	6/2/93 Att 2 #12
27 Handout (1 set) provided per Work Profile interview/presentation during on-site visit by audit team.	4/21/94 Visit

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**Pertaining to  
1992 ASI Work Profile # 110006**

**Tariffs and Costs**

Tab	Source: Data Request and/or On-Site Visit
1 ASI Work Profile - 1992 # 110006	6/24/92
2 I/T Project Description	6/2/93 Att 2 #9
3 Five Benefit Verification Forms - 1992 - Completed	6/2/93 Att 2 #11
4 Three ASI Questionnaires - each 32 questions completed by ASI employees who charged time to this work profile in 1992 (including profile manager). Work samples included.	6/2/93 Att 3 - -
5 Five AOC Questionnaires (16 Questions) completed by AOC employees	6/2/93 Att 4
6 Total 1992 Work Profile Budget	6/2/93 Att 2 #1
7 Total Non Direct Billed Work Profiles Cost included in Work Profile	6/2/93 Att 2 #2
8 Total Bellcore Cost in Work Profile	6/2/93 Att 2 #3
9 Total number of employees that had time hard coded to the Work Profile	6/2/93 Att 2 #4
10 Accounting Classifications and PLC Assignments	6/2/93 Att 2 #7
11 Sample Bill Line/Project Code Titles	6/2/93 Att 2 #8
12 Total Hours/Month (for allocating Overheads)	6/2/93 Att 2 #10
13 CATS-9240 Year-To-Date Billing Summary	
14 * CATS-1170 Monthly Customer Billing Summary - OBT - June 1992 * ASI Billing Statement - OBT - June 1992 * FF60 Report - OBT - June 1992 * Wire Payment for June 1992 - ASI Bill - OBT	11/10/93 Page 6 #12

# Tariffs and Costs

Tab		<u>Source:</u> Data Request and/or On-Site Visit
15	Cost Pools to which Bill Lines in Work Profile are assigned	11/10/93 Page 6 #7
16	Response to request for description of work activity performed within each bill line	11/10/93 Page 6 #9
17	Total dollar amount charged to Regulated, Non-Regulated and Shared	11/10/93 Page 6 #11
18	Handouts (4) provided by Work Profile interviews during on-site visit by audit team	4/21/93 Visit
19	List of all new products for which cost studies were performed - Non-Reg Identified	1/26/93 Page 2 #2
20	Example of time coding for state specific and Non-Reg products cost studies	1/26/93 Page 2 #1
21	CATS-1160 Summary Sheets - June 1992	8/18/93
22	Budget tracking reports (BVA-1) for Work Profile (Monthly/AOC) plus 12/92 YTD (BVA-2)	6/2/93 Att 2 #12

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**Pertaining to  
1992 ASI Work Profile # 110009**

**Legal Department  
(Overhead WP)**

Tab	<u>Source:</u> Data Request and/or On-Site Visit
1 ASI Work Profile - 1992 # 110009	6/24/92
2 Three ASI Questionnaires - each 32 questions completed by ASI employees who charged time to this work profile in 1992. Work samples included.	6/2/93 Att 3
3 Total 1992 Work Profile Budget	6/2/93 Att 2 #1
4 Total Non Direct Billed Work Profiles Cost included in Work Profile - 1992	6/2/93 Att 2 #2
5 Total Bellcore Cost in Work Profile	6/2/93 Att 2 #3
6 Total number of employees that had time hard coded to the Work Profile	6/2/93 Att 2 #4
7 Response to request for Bill Line description (for Account classification)	6/2/93 Att 2 #9
8 Response to request for 1992 Exception Time Reporting re: Mike Pabian	5/3/93 #1
9 Response to request for additional detailed responses to questions in 6/2/93 - Att 3 (ASI Questionnaire)	11/18/93 Page 2 #1
10 Response to request for explanation of why Work Profile is "Nonbillable"	11/18/93 Page 2 #2
11 Breakdown of costs paid for legal council from firms outside of Ameritech and breakdown of costs relating to AOCs	11/18/93 Page 2 #3
12 Type of work (legal) contracted out, determination of when work should be contracted out, & how firms are selected	11/18/93 Page 2 #4

**Legal Department**  
(Overhead WP)

Tab	<u>Source:</u>	
	Data Request	and/or On-Site Visit
13	Detailed description of types of costs assigned to: 1. Direct Expenses, 2. Direct Administrative, 3. General Occupancy, 4. Asset-Related.	11/18/93 Page 2 #5
14	Handouts provided per Work Profile interview (M. Pabian) during on-site visit by audit team	4/21/93 Visit
15	Costs assigned to each Non-Direct Billed Work Profile by Bill Line by month for first six months of 1992. (Originally provided, as requested, on disk in Lotus format - sample print-out page included)	7/31/92 #5

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Pertaining to  
1992 ASI Work Profile # 120001

**Corporate Communications  
(Overhead WP)**

Tab	Source: Data Request and/or On-Site Visit
1 ASI Work Profile - 1992 # 120001	6/24/92
2 One ASI Questionnaire - 32 questions completed by ASI employee who charged time to this work profile in 1992 (profile manager). Work samples included.	6/2/93 Att 3
3 Total 1992 Work Profile budget	6/2/93 Att 2 #1
4 Total Non-Direct Billed Work Profiles cost in Work Profile	6/2/93 Att 2 #2
5 Total Bellcore cost in Work Profile	6/2/93 Att 2 #3
6 Total number of employees that had time hard coded to the Work Profile	6/2/93 Att 2 #4
7 Bill line description given to Accounting Standards for account classification	6/2/93 Att 2 #9
8 Total 1992 expenses assigned to this Profile.	1/27/93 DR #3 Q.#3
9 Break-out of all corporate contributions paid in 1992	1/27/93 DR #3 Q.#12
10 How unregulated entities are charged for services under this Work Profile.	11/18/93 Page 2
11 Costs assigned to each Non-Direct Billed Work Profile by Bill Line by month for first six months of 1992. (Originally provided, as requested, on disk in Lotus format - sample print-out page included)	7/31/92 #5

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**Pertaining to  
1992 ASI Work Profile # 120002**

**Ameritech Center Administrative Support  
(Overhead WP)**

Tab	Source: Data Request and/or On-Site Visit
1 ASI Work Profile - 1992 # 120002	6/24/92
2 Three ASI Questionnaires - Each 32 questions completed by ASI employees who charged time to this work profile in 1992 (including Profile Manager). Work samples included.	6/2/93 Att 3
3 Total 1992 Work Profile budget.	6/2/93 Att 2 #1
4 Total Non-Direct Billed Work Profiles cost in Work Profile.	6/2/93 Att 2 #2
5 Total Bellcore cost in Work Profile.	6/2/93 Att 2 #3
6 Total number of employees that had time hard coded to the Work Profile.	6/2/93 Att 2 #4
7 Response to request for Project Codes Description.	11/18/93 Page 3 # 1
8 Response to request for explanation of how costs for services provided under this Work Profile are billed.	11/18/93 Page 3 #s 2, 4
9 Response to request for explanation of assign- of Work Profile costs.	11/18/93 Page 3 # 3
10 Explanation of services under Work Profile which are contracted out, including breakdown of costs.	11/18/93 Page 3 #s 5, 6
11 Handout (1 set) provided per Work Profile interview/presentation during on-site visit by audit team.	4/21/94 Visit
12 Costs assigned to each Non-Direct Billed Work Profile by Bill Line by month for first six months of 1992. (Originally provided, as requested, on disk in Lotus format - sample print-out page included)	7/31/92 #5

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Pertaining to  
1992 ASI Work Profile # 140010

Corporate - Finance and Planning  
(Overhead WP)

Tab	Source: Data Request and/or On-Site Visit
1 ASI Work Profile - 1992 # 140010	12/3/92
2 Two ASI Questionnaires - each 32 questions completed by ASI employees who charged time to this work profile in 1992 (includes Profile Manager).	6/2/93 Att 3
3 Total 1992 Work Profile budget	6/2/93 Att 2 #1
4 Total Non-Direct Billed Work Profiles cost in Work Profile	6/2/93 Att 2 #2
5 Total Bellcore cost in Work Profile	6/2/93 Att 2 #3
6 Total number of employees that had time hard coded to the Work Profile	6/2/93 Att 2 #4
7 Bill line description given to Accounting Standards for account classification	6/2/93 Att 2 #9
8 Costs assigned to each Non-Direct Billed Work Profile by Bill Line by month for first six months of 1992. (Originally provided, as requested, on disk in Lotus format - sample print-out page included)	7/31/92 #5
9 Reports routinely prepared by group under this Work Profile	1/27/93 DR #3 Q.#2
10 Confirmation of classification methodology for Work Profile	11/10/93 Page 4 Q. #21
11 Response to question as to why Work Profile is not treated as "billable".	11/10/93 Page 4
12 Handout (1 set) provided per Work Profile interview/presentation during on-site visit by audit team	4/21/94 Visit



## **Exhibit 9**

**EXAMPLE OF  
DATA CENTER CONSOLIDATION COSTS  
BILLED TO NON-REGULATED AFFILIATES  
(\$000)**

<b>Total Data Processing Charges for Non-Regulated Affiliates</b>	<b>\$ 1,077</b>
<b>Total Data Processing Charges<sup>1</sup></b>	<b>\$127,850</b>
<b>Percent Non-Regulated Affiliate Data Processing Charges to total Data Processing Charges</b> (1,077 / 127,850 = 0.0084)	<b>0.84%</b>

**Impact of additional Data Center Consolidation allocations to non-regulated affiliates.**

<b>Total Data Center Consolidation Charges<sup>2</sup></b>	<b>\$ 20,164</b>
<b>Additional billings</b> (20,164 * .84%)	<b>\$ 170</b>

<sup>1</sup> Total data processing charges provided in response to data request 10/29/93 attachment.

<sup>2</sup> Total data center consolidation charges in bill line B40400 in work profile 090006 on 12/92 Report 9240.

## **Exhibit 10**

SQUARE FOOTAGE CALCULATION

Adjusted 1992 Ameritech Center square footage is listed below:

Total ASI square footage	981,000
Less ASI allocation:	
conference center	95,000
dining facilities	50,000
regional library	25,000
wellness center	<u>30,000</u>
Adjusted	781,000

**JOINT AUDIT TEAM'S REPLY TO  
AMERITECH'S RESPONSE TO THE  
REPORT OF THE JOINT AUDIT TEAM'S  
REVIEW OF AFFILIATE TRANSACTIONS  
AT  
AMERITECH SERVICES, INC.**

**MAY 1995**

## **Joint Audit Team Reply to Ameritech's Response Concerning Review of Affiliate Transactions at Ameritech Services, Inc.**

The joint audit team has evaluated Ameritech's response to the above-referenced audit report. The audit team believes the report stands on its own merits and, therefore, does not warrant a lengthy reply from the audit team. However, the audit team's comments include corrections of factual inaccuracies contained in Ameritech's response. Moreover, the audit team believes that its comments must address several items in Ameritech's response that may give the reader a misleading or false impression of the facts. Finally, silence on any specific issue should not be interpreted to mean that the audit team agrees with Ameritech's comments.

### **Generally Accepted Auditing Standards**

Ameritech's response repeatedly claims that the auditors failed to follow generally accepted auditing standards (GAAS) due to failure to evaluate all information provided in an unbiased manner. Under GAAS the weight of evidence is not based on sheer quantity of data but instead on the quality of data. The audit team's report supports the conclusion that the materials provided did not contain the necessary documentation to evaluate the allocation of ASI's costs between the Ameritech Operating Companies' (AOCs) regulated and nonregulated operations.

### **"Limited" Opportunity for Misallocation**

Ameritech states that it has a "limited" opportunity for misallocation of costs since the charter of Ameritech Services, Inc. (ASI) limits the amount of work that ASI can perform for "outside," nonregulated affiliates within the Ameritech organization. The audit team does not dispute this statement. However, Ameritech omits the key point that the lion's share of ASI's work, which is performed for the AOCs, is separated between regulated and nonregulated activity of the AOCs. In effect, this is a distinctly different "opportunity" for misallocation internal to the AOCs. Therefore, the opportunity is not as "limited" as Ameritech would lead one to believe from its response.

### **Comparability of Audit Findings**

Ameritech states that two other audits of ASI in 1992 contradict the audit team's findings. First, an important consideration as to why regulators would perform this audit is the fundamental subjectivity inherent in the application of all accounting and auditing standards. This audit report demonstrates this subjectivity in that the audit team has reached conclusions different from the previous audits. In addition, the team questions whether these two other audits actually addressed the same issues as this audit report. While the Frederick and Warinner

audit includes value testing on page 211 of that report, that audit unfortunately assumed, apparently without further inquiry, that the work was previously performed by Illinois Bell and proceeded to conclude that such work was still used and useful to regulated utility service. The audit team's evaluation of ASI's cost reduction measures substantiates that the nature of the work performed has undergone significant change. This emphasizes the importance of assurance that ASI's services continue to provide a benefit to regulated ratepayers. In response to the comparison to the Arthur Andersen (AA) audit, the Ameritech response indicates they believe AA primarily audits procedures for accumulating, summarizing and billing costs of ASI services to the AOCs. However, this audit's findings go beyond procedures and address the sufficiency of documentation of benefit to ratepayers. The audit report explains what would have been sufficient to satisfy the audit team's information requests. Finally, it is important to recognize that this audit report is not the first time an audit has arrived at different conclusions than outside auditors. The General Accounting Office 1992 Report to Congressional requesters points out that the Federal Communications Commission has regularly arrived at materially different findings than outside auditors.

#### **Compatibility with Public Switched Network**

Ameritech's response states in numerous places that when a project is focused on developing and deploying capabilities in the public switched network, it is entirely appropriate to assign the costs to regulated operations. The audit team reiterates here the report statement that compatibility with the public switched network is not a sufficient criterion, in and of itself, to assign costs to regulated operations. In fact, because of the growth in nonregulated services, many of these services will need to be compatible with the public switched network. Therefore, a reasonable conclusion is that nonregulated services, as beneficiaries of network compatibility, should be charged a portion of all development and deployment costs.

#### **Factual Inaccuracies**

The following identifies and refutes other particular statements in Ameritech's response which are factually inaccurate. The page references shown below coincide with the page numbers in Ameritech's response.

Page 13 - "Instead the audit team chose to rely on an unofficial translation table that an employee had put together for personal use." Numerous staff data requests document that staff was not satisfied with the translation tables provided. A memo to Matt Mihina in preparation for the team's final field work on December 13 to 15, 1993, states that translation tables in the team's possession were not complete and did not specify certain

bill lines. The team was never given official translation tables in spite of numerous requests and demonstrations via phone conversations that the disputed unofficial document was incomplete.

Page 17 - "Since the ASI board members are all officers of the AOCs, the major projects performed by ASI on behalf of the AOCs, such as data consolidation and IT work, are already deemed beneficial and reasonable through the strategic initiative approval process." That ASI board members are also officers of the AOCs does not logically compel the suggested conclusion. While strategic initiatives may be determined to be beneficial and reasonable to Ameritech as a whole through the strategic initiative approval process, they are also in no way demonstrated to be beneficial to AOC regulated ratepayers through such a process.

Page 22 - "The data consolidation costs which the report claims were overhead, were those expenses which were caused by the consolidation of data centers throughout the Ameritech region, and which would not have been incurred absent the consolidation project. These costs amounted to approximately \$20 million in 1992." The audit team's finding in the report refers to all non-state specific bill lines in that work profile that were billed directly to the five AOCs. This amounted to \$117 million in 1992. The \$20 million referred to by Ameritech represents only one bill line of several comprising the audit team's \$117 million figure. It should be noted that the bill line represented by the \$20 million shares the same name as the entire work profile. The entire work profile includes data center consolidation as well as processing, storage and printing services.

Page 23 - "First, the report is inaccurate because not all the costs of these work profiles are assigned directly to regulated operations." The costs incurred under the seven specific work profiles were all assigned to regulated operations according to the translation table dated June 18, 1992, that was provided to auditors. In addition, a translation table dated January 15, 1993, also provided to the auditors, showed a slightly different classification than the June 18 table but still does not conform to the claimed classification in Ameritech's response. In particular, the claimed classification of 100017--Human Factors Technology is questioned. Both the June 18 and January 15 translation tables show the costs incurred under this work profile were assigned entirely to regulated activities while the response claims the majority of the costs incurred under this work profile were assigned to a shared cost pool. The audit report is based on the June 18 translation table.

Page 33 - "Specifically, the headcount figures used in the report do not include contract employees." The headcount figures used by



the audit team do include contract employees. This information was provided in response to question 3 of the data request that was dated April 8, 1993, and redelivered August 3, 1993.

Page 24 - "Another inaccuracy in the report is that ASI paid \$9.7 million in 1991, and \$7.0 million in 1992 in double occupancy costs.... Thus, ASI did not incur "double occupancy" costs as the report claims." The \$9.7 million in double occupancy costs identified by staff in 1991 in the report are primarily the costs associated with paying rent at Hoffman Estates, apparently before it was occupied. A sub-account in the general ledger clearly identified \$9.7 million of costs associated with Hoffman Estates in 1991 while the rent for all the other locations for 1991 remained the same as in 1990.